



State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

IDAHO TRANSPORTATION DEPARTMENT

FY 2004, 2005, and 2006

Report IC29006
Date Issued: March 7, 2008

Serving Idaho's Citizen Legislature

FOREWORD

PURPOSE OF REPORT

We evaluated the internal controls over financial operations of the Idaho Transportation Department as part of our effort to evaluate each State agency at least once every three years. This report summarizes the results of our evaluation.

SCOPE OF WORK

The management of the Department is responsible for establishing and maintaining internal controls. We obtained an understanding of the relevant policies and procedures comprising the internal control system. We also determined whether the relevant policies and procedures had actually been placed into operation. Our intent was to indicate where internal controls could be improved in order to help ensure the Department's ability to record, process, summarize, and report financial data accurately.

AUDIT AUTHORIZATION

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code, Section 67-429.

ASSIGNED STAFF

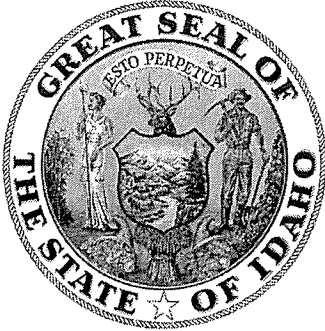
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ADMINISTRATION AND TECHNICAL REVIEW

Don H. Berg, CGFM, Manager, Legislative Audits Division
Chris Farnsworth, CPA, Managing Auditor

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EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO TRANSPORTATION DEPARTMENT

PURPOSE AND SCOPE – We performed certain audit procedures to evaluate the effectiveness of the Idaho Transportation Department's internal control design and operation. The limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed. Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. Any findings and recommendations are intended to improve the internal control system to prevent errors, omissions, misrepresentations, or fraud.

CONCLUSION – We noted no matters involving the internal control over the Division's financial reporting or its operation that we considered to be material weaknesses. However, our consideration of internal controls would not necessarily disclose all matters considered to be a material weakness.

FINDINGS AND RECOMMENDATIONS – There is one finding and recommendation in this report.

FINDING #1 – The cost effectiveness and need for three State-owned aircraft should be analyzed . Our limited review of the costs and usage of State-owned aircraft indicated that ownership may not be cost effective or essential to the needs of the State. The urgency of trips and itineraries indicate that other less expensive transportation options exist in most circumstances. Although State-owned aircraft are convenient, a comprehensive analysis should be completed to ensure that the cost to operate and maintain State-owned aircraft is reasonable and necessary.

We also noted other issues with State-owned aircraft operations that indicate a need for an in-depth review. For example:

- Billings for State-owned aircraft usage are not always accurate. We noted three separate instances that were under-billed for approximately \$2,500.
- The State's largest and most expensive aircraft to operate is used to transport a single passenger when smaller, more cost-effective aircraft are available and appropriate for conditions.
- We noted one instance in which a State-owned aircraft was used to assist in a medical situation, and although humanitarian in nature, the use was not within the limits authorized by policy.

RECOMMENDATION #1 – **We recommend** that the Department complete a comprehensive analysis of aircraft operations to determine whether ownership is reasonable and necessary, and whether other alternatives are available that meet the State's needs and are more cost effective.

AGENCY'S CORRECTIVE ACTION PLAN – The Division of Aeronautics will develop a cost/benefit analysis of the State's three aircraft. The Division will also review the cost-effectiveness of various travel options provided by the Division compared with other travel options available to State agencies in order to enable State agencies to make the most cost-effective travel decisions within the parameters of their sometimes unique traveling requirements.

The Division of Aeronautics is reviewing various flight operations billing software. This software, if acquired, will replace the current manual billing system and will accommodate complex itineraries including standby time and crew travel costs.

The Division of Aeronautics will review State travel policies and conduct employee training to ensure compliance with those policies.

PRIOR FINDINGS AND RECOMMENDATIONS – The prior report included three findings and recommendations.

PRIOR FINDING #1 – Accounting for receipts at the Division of Aeronautics can be improved. We **recommended** that the Division of Aeronautics improve internal controls and accounting procedures over receipts by billing and depositing all money in a timely manner, pursuing past due accounts, and reconciling collections with amounts deposited.

The Division implemented a policy to request reimbursement from the federal government in a timely manner, and is making deposits in accordance with Idaho Code. **Current Status: CLOSED**

PRIOR FINDING #2 – Controls over expenditures can be improved. We **recommended** that the Department improve internal controls over expenditures by requiring cardholders to review and approve purchasing card (P-card) statements, complete travel vouchers in accordance with policies, and properly account for supply inventory transactions.

The Department has made improvements in documenting expenses relating to P-cards and travel vouchers. Additionally, the Division of Aeronautics has reduced airport supply inventory and implemented a policy to distribute supply items at no cost to public-use airports. **Current Status: CLOSED**

PRIOR FINDING #3 – The Division of Aeronautics' accounting for courtesy cars should be improved or the program modified. We **recommended** that the Division consider modifying the courtesy car program. Specifically, the Division should consider providing vehicles to the local airports and allow the local airports to operate the courtesy car program. If the Division decides not to modify the program, it should train the program manager to effectively monitor the financial operations of the program and perform periodic reviews to ensure compliance with agreements and State laws.

The Department has complied with our recommendation by modifying the courtesy car program. **Current Status: CLOSED**

AGENCY RESPONSE – The Department has reviewed the report and concurs with the recommendation.

FINANCIAL SUMMARY – The State Highway Fund is the Department's primary operating fund. It is used for highway planning, construction, maintenance, vehicle services, and administration. Receipts to the Highway Fund are primarily from fuel taxes and registration fees transferred from the Highway Distribution Fund, and reimbursements from the Federal Highway Administration. In fiscal year 2006, the Department made expenditures of approximately \$490 million from the State Highway Fund – \$105 million for personnel costs, \$58 million for operating expenses, \$320 million for capital outlay (\$297 million for highway projects), and \$7 million to local governments as trustee and benefits payments.

The following financial data is presented for informational purposes only. A description of each fund is provided in the appendix of the report.

IDAHO TRANSPORTATION DEPARTMENT – FY 2006 FINANCIAL SUMMARY

Fund Name	July 1, 2005 Beginning Cash	Receipts and Transfers In	Disbursements and Transfers-Out	June 30, 2006 Ending Cash
State Aeronautics	\$1,448,243	\$1,979,969	\$2,319,938	\$1,108,274
Local Highway Distribution*	27,547,567	120,002,035	117,518,017	30,031,585
Local Bridge Inspection	246,917	111,816	81,847	276,886
Railroad Grade Crossing	1,124,276	296,225	333,267	1,087,234
State Highway Fund	71,816,418	473,115,472	492,476,941	52,454,949
Highway Distribution**	0	314,933,578	314,933,578	0
Plate Manufacturing	970,683	3,136,127	2,785,465	1,321,345
Abandoned Vehicle	40,843	3,324	3,303	40,864
Local Government Suspense***	854,639	672,663	536,293	991,009
Motor Vehicle Suspense	2,426,892	9,812,087	9,245,058	2,993,921
TOTAL	\$106,476,478	\$924,063,296	\$940,233,707	\$90,306,067

*The Local Highway Distribution Fund is used to distribute highway user revenue to local governments in accordance with Idaho Code.

**The Highway Distribution Fund is used to collect and distribute highway user revenue to other funds, including the Local Highway Distribution Fund, in accordance with Idaho Code.

***The Local Government Suspense Fund is used to retain city and county advances for local construction projects. Money is held in the fund until work on projects begins, at which time the money is transferred to the State Highway Fund.

OTHER ISSUES. We discussed other matters with the Department which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the Idaho Transportation Department and the Idaho Legislature and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Pamela Lowe, and her staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Don H. Berg, CGFM, Manager, Legislative Audits Division

Chris Farnsworth, CPA, Managing Auditor

AGENCY RESPONSE



IDAHO TRANSPORTATION DEPARTMENT

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February 5, 2008

Don H. Berg, CGFM
Manager
Legislative Audits
Statehouse Mail

Subject: Department Response for Audit of FY 2004, 2005, 2006

Dear Mr. Berg:

Below is the Idaho Transportation Department's response to the single finding from the FY 2004 – 2006 audit. I would like to thank your staff for their efforts and the professional manner in which this audit was conducted. It is our intent to continually improve the operations of the Department and these types of reviews assist in that effort.

Finding: The cost effectiveness and need for three State owned aircraft should be analyzed.

Response: The Department concurs with the recommendation.

The Division of Aeronautics will develop a cost/benefit analysis of the states' three aircraft. The Division will also review the cost effectiveness of various travel options provided by the Division compared to other travel options available to state agencies in order to enable state agencies to make the most cost effective travel decisions within the parameters of their sometimes unique traveling requirements.

The Division of Aeronautics is reviewing various flight operations billing software. This software, if acquired, will replace the current manual billing system and will accommodate complex itineraries including standby time and crew travel costs.

The Division of Aeronautics will review state travel policies and conduct employee training to ensure compliance with those policies.

Sincerely,

A handwritten signature in black ink, appearing to read 'Pamela K. Lowe', is written over a horizontal line.

PAMELA K. LOWE, PE
Director

APPENDIX

STATUTORY AUTHORITY, HISTORY AND PURPOSE

Statutory authority for the Idaho Transportation Department is found in Idaho Code, Title 40, Chapter 1. The Department's primary purpose is to construct and maintain highways within the State through the Division of Highways. The construction program includes federally-funded projects, as well as 100% State-funded projects. The maintenance program encompasses the preservation, maintenance, and restoration of highways, structures, and traffic facilities on the State highway system. The Department is also responsible for operation of the State's ports-of-entry system, as well as serving as an intermediary for federal funds made available for local urban mass transit development. Department divisions include Administration, Highways, Public Transportation, Motor Vehicles, Transportation Planning, and Aeronautics. The Division of Aeronautics assists with the development and maintenance of certain airport facilities and conducts searches for missing aircraft.

During Idaho's territorial period, from 1863 to statehood in 1890, every roadway was funded by a separate act of the legislature. From 1890 to 1913 (when the first Highway Commission and a statewide road system were established by the legislature) an average of \$27,500 per year was authorized for bonds to be issued for construction of roads and bridges. The Highway Commission had five members.

In 1919, the legislature adopted a cabinet form of government and abolished the State Highway Commission. Authority over State highways was vested in the Bureau of Highways under the Department of Public Works.

In 1951, the legislature established a three-member board. The Board was expanded to seven members, effective July 1, 1995. Members of this part-time bipartisan board are appointed to staggered six-year terms by the Governor and are confirmed by the Senate.

Idaho State government was reorganized in 1974, and the Department of Highways was renamed the Idaho Transportation Department. As a result of this reorganization, the Department of Aeronautics was placed under the Idaho Transportation Department and renamed the Bureau of Aeronautics. Subsequently, the Bureau of Aeronautics was renamed the Division of Aeronautics. On July 1, 1982, the Motor Vehicle

FUNDING

Bureau was transferred to the Idaho Transportation Department from the Department of Law Enforcement (now Idaho State Police). The Bureau, which includes motor vehicle services, commercial vehicle services, and driver services, was renamed the Division of Motor Vehicles in fiscal year 1995.

The Idaho Transportation Department is funded by State and federal funds. State funding is provided through a formula that distributes highway users' revenue among the Department, the State's 44 counties, incorporated cities, and local highway districts. Federal funding is based on the State's population, land area, and road mileage.

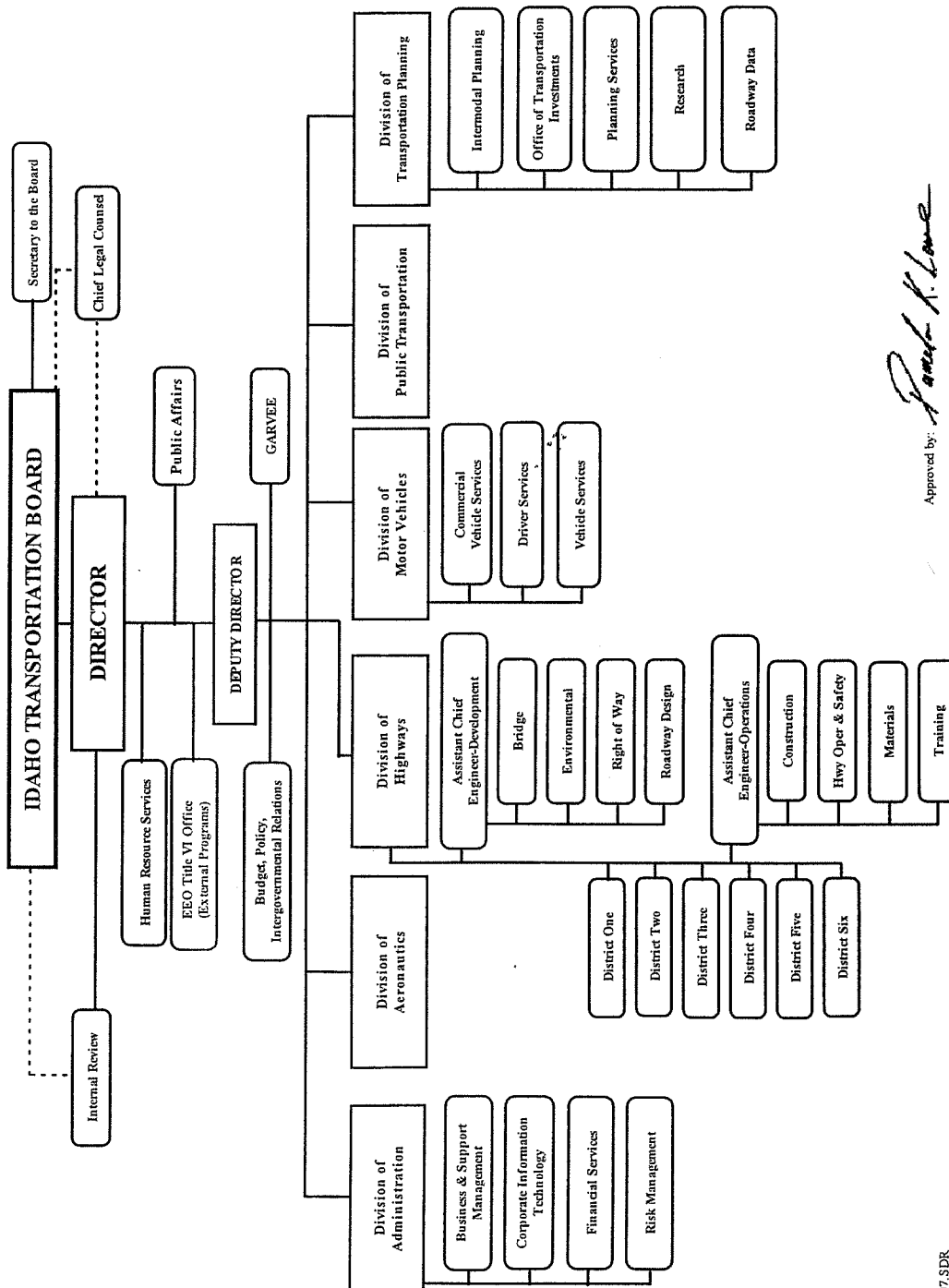
ORGANIZATION

A seven-member, part-time bipartisan Board directs the Idaho Transportation Department. The Board selects and appoints a director, who functions as chief administrative officer under the policies established by the Board. In fiscal year 2006, the Department employed approximately 1,800 employees, about 1,160 of whom were assigned to the Department's six districts. The district offices are located in Boise, Coeur d'Alene, Lewiston, Pocatello, Rigby, and Shoshone. The remaining employees are located at the headquarters' office in Boise, where they provide management, planning, engineering, right-of-way acquisition, legal, accounting, information technology, and other administrative services. They also oversee the motor vehicle, commercial vehicle, driver services, ports-of-entry, highway safety, aeronautics, and public transportation functions.

An organizational chart is included on the following page.

IDAHO TRANSPORTATION DEPARTMENT ORGANIZATION COMPLEMENT

Chart Revised 03/07



Approved by: *Paul H. Lane*

FUND DESCRIPTIONS

STATE HIGHWAY FUND 0260

SOURCES – The State Highway Fund (I.C. § 40-702) receives most of its State funding from the Highway Distribution Fund (0261), according to the provisions of I.C. § 40-701. This funding is primarily from motor fuel taxes and vehicle registration fees. Federal aid is deposited in this fund as reimbursement of approved State expenditures for construction and highway improvement. Local and private money is deposited in this fund under joint contracts with federal, local, State, and private sources for construction and improvement of transportation systems. Other funding includes miscellaneous receipts for sale of equipment, services, supplies, right-of-way permits, and interest earned on the invested fund balance.

USES – This fund is used to pay for constructing, maintaining and administering the State highway system. State funds are used to match federal funds. The fund also pays operating costs for the Division of Motor Vehicles to administer the registration and licensing program.

STATE AERONAUTICS FUND 0221

SOURCES – The State Aeronautics Fund receives money from aviation fuel taxes levied on all aircraft engine fuel sold in Idaho, at the rate of 5½¢ per gallon of aviation gasoline, and 4½¢ per gallon of jet fuel (I.C. § 63-2408). Funds are also received from licensing and registering aircraft and airmen, and from any fines or penalties imposed (I.C. § 21-211). Federal aid is deposited in this fund as reimbursement of approved operating and construction grants to local airports. Receipts are also collected to offset the use of State-owned aircraft by other State agencies and interest earned on the invested fund balance.

USES – This fund is used to further develop, administer, and enforce the laws relating to aviation. It is also used to fund grants to airports, maintain State-owned airports, and operate State-owned aircraft.

LOCAL HIGHWAY DISTRIBUTION FUND 0259-01

SOURCES – This is a special fund for local governments' share of the highway users' revenue. Money is transferred to this fund monthly by the State Controller's Office from the Highway Distribution Fund (I.C. § 40-701). Interest earned on the invested fund balance is credited to the fund.

**LOCAL BRIDGE INSPECTION
FUND 0259-03**

USES – The apportionment of these funds is described in I.C. § 40-709. Each calendar quarter, three hundred twenty-six thousandths of one percent (0.326%) is apportioned to the Local Highway Technical Assistance Council, and the balance is distributed to local governments. Distribution of these funds to local governments is apportioned at 30% to incorporated or specially chartered cities that maintain roads based on population, and 70% to counties and highway districts. Of the portion going to counties and highway districts, 10% is divided equally among the State's 44 counties, 45% is divided based on the dollar proportion of motor vehicle registrations, and 45% is divided based on the proportion of improved road miles.

SOURCES – The Local Bridge Inspection fund receives \$100,000 each year from the motor fuels tax to promote the safety of bridges on local public highways (I.C. § 63-2412). Interest earned on the invested fund balance is credited to the fund.

USES – The money pays the local matching share of federal funds available for periodic inspections of bridges (I.C. § 40-703).

**RAILROAD GRADE CROSSING
PROTECTION FUND 0259-04**

SOURCES – The Railroad Grade Crossing Fund receives \$250,000 each year from the motor fuels tax to promote safety at railroad crossings (I.C. § 63-2412). Interest earned on the invested fund balance is credited to the fund.

USES – This fund is used to pay all or part of the cost to install, reconstruct, maintain, or improve automatic or other safety devices and signals at railroad crossings (I.C. § 62-304A).

**RESTRICTED HIGHWAY
DISASTER FUND 0260-06**

SOURCES – The Restricted Highway Fund was established with \$6 million from the Restricted Highway Fund (1996 HB 871) and \$6 million from the Petroleum Clean Water Trust Fund (1997 HB 289). Interest earned on the invested fund balance was credited to this fund.

This fund was closed at the end of fiscal year 2004.

**HIGHWAY DISTRIBUTION
FUND 0261**

SOURCES – The Highway Distribution Fund includes State highway users' revenue collected under the following provisions:

1. Gasoline tax (I.C. §§ 63-2402 and 63-2405), less:
 - a. State Tax Commission administrative costs and refunds (I.C. § 63-2412).

- b. Railroad grade crossing costs (I.C. § 63-2412).
 - c. Local bridge inspections costs (I.C. § 63-2412).
 - d. 1.28% to Waterways Improvement, Parks and Recreation Capital Improvements, and Search and Rescue Funds (I.C. § 63-2412(e)(1)).
 - e. 1.28% to Off-Road Vehicles, Parks and Recreation Capital Improvements, and Search and Rescue Funds (I.C. § 63-2412(e)(2)).
 - f. 0.44% to the Parks and Recreation Capital Improvement Fund for roads and bridges (I.C. § 63-2412(e)(3)).
2. Special fuel tax, less State Tax Commission administrative costs and refunds (I.C. § 63-2418).
 3. Special fuel permits and decals (I.C. § 63-2438).
 4. Motor fuels penalties, interest, and fines (I.C. § 63-2441).
 5. Vehicle registrations (I.C. §§ 49-402, 49-422, and 49-434).
 6. 120-hour and single-trip permits (I.C. § 49-432).
 7. Operator licenses (I.C. § 49-306) less distributions to:
 - a. Counties (I.C. § 49-306(6)).
 - b. EMS (I.C. § 49-306(8)).
 - c. Driver's training (I.C. § 49-306(8)).
 8. Commercial Vehicle Registration I.C. § 49-434).
 9. Plate fees (I.C. § 49-450), less distributions to the Plate Manufacturing Fund (I.C. § 49-450).
 10. Excess weight permits (I.C. § 49-1002), dealers' plates, stickers, and temporary registration permits (I.C. §§ 49-523 and 49-1004).
 11. Fines (I.C. § 19-4705 and 49-239), less amounts retained by cities and counties (I.C. § 19-4705).
 12. Interest earned on the invested fund balance.

USES – This fund is used to collect and distribute highway users' revenue according to the provisions of I.C. § 40-701. The net revenue in this fund is distributed 57% to the State Highway Fund (0260), 38% to the Local Highway Distribution Fund (0259-01), and 5% to the Idaho Law Enforcement Fund (0264).

PLATE MANUFACTURING FUND 0262

SOURCES – When a license plate is issued for vehicle registration, a fee of \$3.00 per plate is deposited in this fund (I.C. § 49-450). Interest earned on the invested fund balance is credited to this fund.

USES – The amount collected for the "Heritage Plate" (50¢ from each plate) is used to pay the Idaho Heritage Trust for use of the copyrighted design provided for in I.C. § 49-443(1), and the actual costs of producing and manufacturing the plate. The

**STATE HIGHWAY SAFETY
FUND 0263**

remainder is deposited in the Highway Distribution Fund. The Plate Manufacturing Fund is continuously appropriated (I.C. § 49-450A).

SOURCES – The State Highway Safety Fund received reimbursements from the National Highway Traffic Safety Administration and the Federal Highway Administration for completion of specific safety tasks. The reimbursements are for federally approved safety tasks costs. Interest earned on the invested fund balance was credited to the fund.

This fund was closed on June 30, 2005, and is now accounted for in the State Highway Fund (0260).

**ABANDONED VEHICLE
FUND 0277**

SOURCES – This fund receives the proceeds from any sale of abandoned vehicles after satisfaction of all liens and costs of conducting the sale (I.C. § 49-1818(1)).

USES – This fund is continuously appropriated to satisfy allowable claims and reimburse costs to administer the provisions of Chapter 18, Title 49, Idaho Code.

**LOCAL GOVERNMENT
SUSPENSE FUND 0513**

SOURCES – The Local Government Suspense Fund receives money submitted by local government agencies to cover their share of preliminary engineering, right-of-way, and construction on local projects. The money is transferred to the State Highway Fund when work on the project begins. Interest earned on the invested fund balance is credited to the fund.

USES – This fund is used to pay the local match on highway projects. The interest is distributed among the projects. If the project is canceled, the funds are returned to the local government.

**MOTOR VEHICLE
SUSPENSE FUND 0576**

SOURCES – The Motor Vehicle Suspense Fund holds jeopardy assessments, bonds, and over-payments made by motor carriers, as well as registration fees collected for other states under the International Registration Plan. It is also a temporary holding fund until the money can be distributed to the proper funds.

USES – Money collected on behalf of other states is paid to those states, posted bond money is returned when appropriate, and the temporarily held money is disbursed or transferred when the disposition of the funds has been determined.